



Rockford, Michigan

Comprehensive Annual Financial Report

Year Ended: June 30, 2006

ROCKFORD PUBLIC SCHOOLS
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For the year ended June 30, 2006

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FINANCIAL SECTION

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

October 2, 2006

The Board of Education
Rockford Public Schools

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Rockford Public Schools (the "District") as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's elected officials and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund and the aggregate remaining fund information of Rockford Public Schools as of June 30, 2006, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2006 on our consideration of Rockford Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Rockford Public Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hungerford, Aldrin, Nichols & Carter, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

ROCKFORD PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2006

As management of the Rockford Public Schools ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
 - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
 - ♦ *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes combining and individual fund statements.

District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets, and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's property tax-base, economic factors that might influence state aid revenue, and the condition of school buildings and other facilities.

ROCKFORD PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2006

In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities:* The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

Condensed District-Wide Financial Information

The Statement of Net Assets provides financial information on the District as a whole.

	<u>2006</u>	<u>2005</u>
Assets		
Current assets	\$ 18,415,676	\$ 20,808,911
Capital assets, net book value	<u>67,502,595</u>	<u>69,341,294</u>
Total Assets	<u>85,918,271</u>	<u>90,150,205</u>
Liabilities		
Current liabilities	16,795,267	18,038,781
Long-term liabilities	<u>98,801,714</u>	<u>104,974,831</u>
Total Liabilities	<u>115,596,981</u>	<u>123,013,612</u>
Net Assets		
Invested in capital assets, net of related debt	(36,853,118)	(39,017,681)
Restricted	2,222,419	708,656
Unrestricted	<u>4,951,989</u>	<u>5,445,618</u>
Total Net Assets	<u>\$ (29,678,710)</u>	<u>\$ (32,863,407)</u>

The results of the fiscal year's operations for the District as a whole are presented in the Statement of Activities, which shows the change in total net assets for the year.

ROCKFORD PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2006

The Statement of Activities presents changes in net assets from operating results:

	2006	2005
Program Revenues		
Charges for services	\$ 3,874,402	\$ 3,658,594
Operating grants	7,009,467	6,580,808
General Revenues		
Property taxes	18,202,150	16,719,759
State school aid, unrestricted	48,804,303	47,703,000
Interest and investment earnings	411,305	223,114
Gain on sale of capital assets	23,308	5,451
Other	704,070	701,120
Total Revenues	79,029,005	75,591,846
Expenses		
Instruction	39,806,152	36,718,270
Supporting services	24,244,671	23,160,854
Community services	2,284,657	1,914,981
Food service	2,082,069	2,078,745
Athletics	1,272,313	1,221,339
Other	22,805	2,516
Interest on long-term debt	6,020,309	5,215,052
Depreciation – unallocated	111,332	111,332
Total Expenses	75,844,308	70,423,089
Increase in net assets	3,184,697	5,168,757
Net Assets - Beginning of Year	(32,863,407)	(38,032,164)
Net Assets - End of Year	<u>\$(29,678,710)</u>	<u>\$(32,863,407)</u>

Financial Analysis of the District as a Whole

The District's financial position is the product of many factors. Growth during the year in taxes and students contributed to a revenue increase. Fiscal 2006 was the second year for the assessment of the Parks and Recreation Millage and the increase in the county wide special education enhancement millage which together generated \$2.2 million.

The District's total revenues were \$79.03 million. Property taxes and unrestricted state aid accounted for most of the District's revenues, contributing 85% of the total. The remainder came from state and federal aid for specific programs, fees charged for services, interest earnings and other local sources.

The total cost of all programs was \$75.84 million. The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (59 percent). The District's operation and maintenance services accounted for 8.7 percent of total costs.

ROCKFORD PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2006

Total revenues exceeded expenses by \$3,184,697 on the Statement of Activities, however, Unrestricted Net Assets decreased to \$4,951,989 at June 30, 2006.

The stability of the District's finances can be credited to careful monitoring of economic changes and appropriate cost-cutting measures to maintain programs during challenging economic times.

- The District has, for the fifth year, conducted a thorough budget analysis and has broken the budget down into specific components and the related expense. This has allowed the District to prioritize expenses, and also to identify where cuts could occur if necessary.
- Regular updates were provided to the Board of Education during the school year. As Board meetings are recorded, many community members received the same updated budget information.
- Board and Administration enjoys a professional relationship with the union groups employed by Rockford Public Schools. As a result, recent contract settlements include a switch to a more cost effective health insurance plan which reduced health care cost by approximately \$650,000 .
- During fiscal year 2006 the District refinanced \$15.7 million of its 1996 bond issue and School Bond Loan Fund. This will result in a reduction in annual debt service payments of \$572,013 over the life of the new debt.
- The Board of Education approved the purchase of \$1.2 million Energy Conservation Improvement Bonds for the purpose of upgrading equipment/systems for energy savings. This initiative will potentially save the district \$2.9 million in operational costs over the life of the bonds.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. As a general rule, fund balances from one fund are prohibited from being expended on expenditures of another fund.

The District utilizes two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Scholarship and Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

ROCKFORD PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2006

Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Rockford Public School's funds are described as follows:

Major Fund

- The General Fund is our primary operating fund. The General Fund had total revenues of \$64,714,220, other financing sources of \$1,591,559 (including energy conservation bond proceeds of \$1,200,000), total expenditures of \$65,445,909 and other financing uses of \$661,824. The General Fund ended the fiscal year with an undesignated fund balance of \$5,129,651, down from \$5,547,978 at June 30, 2005, due primarily to increased utility and other operational costs.

Nonmajor Funds

- The Food Service Fund, which administers the hot lunch program of the District, had total revenues of \$2,031,275 and total expenditures of \$1,989,924 in 2005-06, increasing its fund balance to \$114,075 at June 30, 2006.
- The Athletics Fund, which administers the athletic program of the District, had total revenues of \$422,022, expenditures of \$1,061,041 and transfers from the General Fund of \$639,019 during the 2005-06 fiscal year. Fund balance at year end remained at zero.
- The District operates eight Debt Service Funds to finance the repayment of general obligation bonds. Total revenues were \$11,879,865, other financing sources were \$16,073,806 (including refunding bond proceeds of \$15,740,000), total expenditures were \$24,116,926 and other financing uses (payments to bond escrow agent) were \$2,290,885. The ending fund balances totaled \$3,059,120, of which \$1,820,715 was used in July, 2006 to retire the remaining outstanding State school bond loan liability.
- The Scholarship Fund is operated as a Private Purpose Trust Fund of the District. The assets of this fund are being held for the benefit of District students. Balances on hand at June 30, 2006 totaled \$366,462.
- The Student Activities Fund is operated as an Agency Fund of the District. The assets of this fund are being held for the benefit of District students. Balances on hand at June 30, 2006 totaled \$534,063.

General Fund Budgetary Highlights

Over the course of the year, the District continuously reviews the annual operating budget after the June adoption. Changes in the budget are due to the following:

- Amendments made in January account for the final student enrollment which determines how much foundation grant state school aid will be received during the fiscal year. Amendments also account for the changes in program costs that were made during the year.

ROCKFORD PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2006

- Final amendments made in June for increases in appropriations to prevent budget overruns and reductions in expenses put into place by the administration.
- The final budget for the General Fund anticipated undesignated fund balance to be 8.3% of General Fund expenditures - the actual results equaled 7.76%.
- The actual decrease in fund balance was due primarily to increased utility and other operational costs.

Capital Asset and Debt Administration

Capital Assets

By the end of 2006, the District had a \$107,227,185 investment in a broad range of capital assets, including land, school buildings, athletic facilities, vehicles, computer equipment and software, and administrative offices. (More detailed information about capital assets can be found in the Notes to Basic Financial Statements.)

At June 30, 2006, the District's investment in capital assets (net of accumulated depreciation), was \$67,502,595. Capital asset purchases totaled \$1,144,401 for the fiscal year with accumulated depreciation increasing \$2,983,100, leaving a net reduction in the book value of capital assets of \$1,838,699.

The District's investment in capital assets (net of accumulated depreciation), including land, land improvements, buildings, vehicles and furniture and equipment is detailed as follows:

Land	\$ 1,962,840
Land improvements	1,622,302
Buildings and additions	58,508,559
Furniture and equipment	3,952,860
Vehicles	<u>1,456,034</u>
Net Capital Assets	<u><u>\$ 67,502,595</u></u>

The District's "investment in capital assets, net of related debt" is a negative \$36,853,118 at June 30, 2006, resulting from the fact that significant amounts of new technology-related equipment which fall under the \$5,000 capitalization threshold of the District were purchased with the proceeds of recent bond issues and the necessity of the District to borrow from the State of Michigan's School Bond Loan Fund to finance current principal and interest repayment requirements due to statutory limitations on debt service property tax levies.

Long-Term Debt

At year end, the District had \$105.4 million in general obligation bonds and other long-term debt outstanding – a net reduction of \$3.4 million from June 30, 2005. The District advance refunded \$15,740,000 of its outstanding 1996 bond issue and State school bond loan fund during the year resulting in a net present value savings of \$409,662 in future interest costs.

ROCKFORD PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2006

The District bond rating for general obligation debt remains at "A3". The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within a District's boundaries. The District's other obligations include borrowings from school bond loan fund, installment purchase agreements, early retirement incentive and accumulated sick leave. We present more detailed information about our long-term liabilities in the Notes to Basic Financial Statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future:

- Voters with Rockford Public Schools approved a Park and Recreation Millage effective in June of 2004. This will result in annual revenue increase of approximately \$1,400,000 for the District in fiscal year 2006-07.
- Fiscal year 2006-07 foundation allowance has increased by \$210 for a total of \$7,085 per student.
- For every dollar paid to employees throughout the year, the District pays a percentage into the Michigan Public Schools Employee Retirement System (MPERS). The rising cost of this expense, controlled by the State, is a significant cause for concern into the future. In 2005-06, the District paid 16.34% of every dollar of payroll into the MPERS. This amount will increase to 17.74% in 2006-07 and is projected to increase to nearly 19% in 2007-08.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Rockford Public Schools, 350 N. Main Street, Rockford, 49341.

BASIC FINANCIAL STATEMENTS

ROCKFORD PUBLIC SCHOOLS
Statement of Net Assets
June 30, 2006

	Governmental Activities
Assets	
Current Assets	
Cash	\$ 1,050
Cash equivalents, deposits and investments (Note B)	7,611,128
Taxes receivable (Note C)	376,076
Accounts receivable	36,552
Due from other governmental units (Note C)	10,054,430
Inventory (Note A)	53,776
Prepaid expenses	282,664
Total Current Assets	<u>18,415,676</u>
Noncurrent Assets	
Capital assets (Note E)	107,227,185
Less accumulated depreciation	(39,724,590)
Total Noncurrent Assets	<u>67,502,595</u>
Total Assets	<u>85,918,271</u>
Liabilities	
Current Liabilities	
Accounts payable	1,435,880
State aid loan payable (Note F)	2,840,000
Due to other governmental units	1,189,386
Payroll withholdings payable	42,547
Accrued interest payable	1,046,298
Salaries payable	2,832,422
Deferred revenue	461,448
Current portion of long term obligations	6,947,286
Total Current Liabilities	<u>16,795,267</u>
Noncurrent Liabilities (Notes A, G)	
General obligation bonds payable	100,866,893
Durant non-plaintiff bonds payable	531,430
Energy conservation bonds payable	1,200,000
State school bond loan payable	1,820,715
Installment purchase agreements payable	380,718
Capital leases payable	25,872
Early retirement incentive	253,000
Accumulated sick leave	296,085
Unamortized bond discount	374,287
Current portion of long term obligations	(6,947,286)
Total Noncurrent Liabilities	<u>98,801,714</u>
Total Liabilities	<u>115,596,981</u>
Net Assets	
Invested in capital assets, net of related debt	(36,853,118)
Restricted for:	
Debt service	2,222,419
Unrestricted	4,951,989
Total Net Assets	<u><u>\$(29,678,710)</u></u>

See accompanying notes to basic financial statements.

ROCKFORD PUBLIC SCHOOLS
Statement of Activities
For the year ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	\$ 39,806,152	\$ 95,760	\$ 5,488,448	\$(34,221,944)
Supporting services	24,244,671	190,386	1,033,409	(23,020,876)
Community services	2,284,657	1,561,433	-	(723,224)
Food service	2,082,069	1,599,866	424,407	(57,796)
Athletics	1,272,313	421,673	-	(850,640)
Other	22,805	-	-	(22,805)
Interest on long-term debt	6,020,309	5,284	63,203	(5,951,822)
Depreciation - unallocated	111,332	-	-	(111,332)
Total Governmental Activities	\$ 75,844,308	\$ 3,874,402	\$ 7,009,467	(64,960,439)
General Revenues				
Taxes:				
Property taxes, levied for general operations				6,597,113
Property taxes, levied for debt service				11,605,037
State school aid, unrestricted				48,804,303
Interest and investment earnings				411,305
Gain on sale of capital assets				23,308
Other				704,070
Total General Revenues				68,145,136
Change in Net Assets				3,184,697
Net Assets - Beginning of Year				(32,863,407)
Net Assets - End of Year				<u>\$(29,678,710)</u>

See accompanying notes to basic financial statements.

ROCKFORD PUBLIC SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2006

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Assets			
Cash	\$ 1,050	\$ -	\$ 1,050
Cash equivalents, deposits and investments (Note B)	4,190,728	3,420,400	7,611,128
Taxes receivable (Note C)	257,348	118,728	376,076
Accounts receivable	26,563	9,989	36,552
Due from other funds (Note D)	320,742	64,124	384,866
Due from other governmental units (Note C)	10,054,430	-	10,054,430
Inventory (Note A)	32,228	21,548	53,776
Prepaid expenditures	282,664	-	282,664
Total Assets	<u><u>\$ 15,165,753</u></u>	<u><u>\$ 3,634,789</u></u>	<u><u>\$ 18,800,542</u></u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 1,434,275	\$ 1,605	\$ 1,435,880
State aid loan payable (Note F)	2,840,000	-	2,840,000
Due to other funds (Note D)	64,124	320,742	384,866
Due to other governmental units	1,186,902	2,484	1,189,386
Payroll withholdings payable	42,547	-	42,547
Accrued interest payable	82,698	-	82,698
Salaries payable	2,814,387	18,035	2,832,422
Deferred revenue	718,796	118,728	837,524
Total Liabilities	<u>9,183,729</u>	<u>461,594</u>	<u>9,645,323</u>
Fund Balances			
Reserved for:			
Capital outlay	852,373	-	852,373
Debt service	-	3,059,120	3,059,120
Unreserved:			
Undesignated, reported in:			
General fund	5,129,651	-	5,129,651
Special revenue funds	-	114,075	114,075
Total Fund Balances	<u>5,982,024</u>	<u>3,173,195</u>	<u>9,155,219</u>
Total Liabilities and Fund Balances	<u><u>\$ 15,165,753</u></u>	<u><u>\$ 3,634,789</u></u>	<u><u>\$ 18,800,542</u></u>

See accompanying notes to basic financial statements.

ROCKFORD PUBLIC SCHOOLS
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2006

Total governmental fund balances		\$ 9,155,219
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$107,227,185 and accumulated depreciation is \$39,724,590.		
		67,502,595
Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue.		
		(374,287)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
General obligation bonds	\$(100,866,893)	
Durant non-plaintiff bonds	(531,430)	
Energy conservation bonds	(1,200,000)	
State school bond loan	(1,820,715)	
Installment purchase agreements	(380,718)	
Capital leases	(25,872)	
Early retirement incentive	(253,000)	
Accumulated sick leave	<u>(296,085)</u>	(105,374,713)
Accrued interest is not included as a liability in governmental funds.		
		(963,600)
Deferred revenue recognized as revenue in the full accrual statements:		
Property taxes		<u>376,076</u>
Total net assets - governmental activities		<u><u>\$ (29,678,710)</u></u>

See accompanying notes to basic financial statements.

ROCKFORD PUBLIC SCHOOLS
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2006

	General	Nonmajor	Total
Revenues			
Local sources	\$ 9,388,060	\$ 13,845,552	\$ 23,233,612
State sources	49,208,416	154,705	49,363,121
Federal sources	1,545,126	332,905	1,878,031
Interdistrict sources	4,572,618	-	4,572,618
Total Revenues	64,714,220	14,333,162	79,047,382
Expenditures			
Current:			
Instruction	37,486,933	-	37,486,933
Supporting services	21,307,104	-	21,307,104
Community services	2,284,094	-	2,284,094
Food service	-	1,989,924	1,989,924
Athletics	-	1,061,041	1,061,041
Capital outlay	190,337	-	190,337
Debt service:			
Principal repayment	369,397	18,390,938	18,760,335
Interest and fiscal charges	3,539	5,544,131	5,547,670
Bond issuance costs	-	107,093	107,093
Underwriter's discount	-	74,764	74,764
Interdistrict	3,804,505	-	3,804,505
Total Expenditures	65,445,909	27,167,891	92,613,800
Excess (Deficiency) of Revenues Over Expenditures	(731,689)	(12,834,729)	(13,566,418)
Other Financing Sources (Uses)			
Bonds issued	1,200,000	-	1,200,000
Refunding bond proceeds	-	15,740,000	15,740,000
Bond premium	10,841	333,806	344,647
Loan proceeds	380,718	-	380,718
Transfers in	-	639,019	639,019
Payments to escrow agent	-	(2,290,885)	(2,290,885)
Bond discount	(22,805)	-	(22,805)
Transfers out	(639,019)	-	(639,019)
Total Other Financing Sources (Uses)	929,735	14,421,940	15,351,675
Net Change in Fund Balances	198,046	1,587,211	1,785,257
Fund Balances, Beginning of Year	5,783,978	1,585,984	7,369,962
Fund Balances, End of Year	\$5,982,024	\$ 3,173,195	\$9,155,219

See accompanying notes to basic financial statements.

ROCKFORD PUBLIC SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2006

Net change in fund balances - total governmental funds \$ 1,785,257

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and the cost is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:

Capital outlays	\$ 1,144,401	
Depreciation expense	<u>(2,983,100)</u>	(1,838,699)

As some delinquent personal property taxes will not be collected for several years after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds, and are instead counted as deferred tax revenues. They are, however, recorded as revenues in the Statement of Activities. (42,942)

Proceeds from the sale of bonds or loans are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets. (17,770,400)

Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue (72,350)

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not effect the Statement of Activities:

Repayment of general obligation bonds	5,771,310	
Repayment of Durant bonds	43,565	
Repayment of state school bond loan	14,801,063	
Repayment of installment purchase agreements	346,104	
Repayment of capital leases	<u>36,229</u>	20,998,271

Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities however, interest expense is recognized as the interest accrues, regardless of when it is paid. (22,957)

In the Statement of Net Assets, early retirement incentive and accumulated sick leave are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits used/paid (\$224,885) exceeded the amounts earned (\$76,368).

148,517

Total changes in net assets - governmental activities

\$ 3,184,697

See accompanying notes to basic financial statements.

ROCKFORD PUBLIC SCHOOLS
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Local sources	\$ 8,790,517	\$9,259,665	\$9,388,060	\$ 128,395
State sources	49,297,403	49,116,797	49,208,416	91,619
Federal sources	1,526,909	1,496,152	1,545,126	48,974
Interdistrict sources	4,602,540	3,944,821	4,572,618	627,797
Total Revenues	64,217,369	63,817,435	64,714,220	896,785
Expenditures				
Current:				
Instruction:				
Basic programs	31,224,540	31,203,972	31,600,014	(396,042)
Added needs	6,331,667	6,426,680	5,746,287	680,393
Adult education	263,883	150,912	140,632	10,280
Supporting services:				
Pupil services	1,434,162	1,370,352	1,390,645	(20,293)
Instructional staff services	2,032,155	1,925,391	2,514,387	(588,996)
General administrative services	652,765	655,275	560,413	94,862
School administrative services	3,923,027	3,869,478	3,856,411	13,067
Business services	1,254,501	1,220,008	1,295,658	(75,650)
Operation and maintenance services	7,069,270	7,310,473	6,624,026	686,447
Pupil transportation services	2,459,661	2,570,908	3,176,029	(605,121)
Central services	2,240,621	1,962,570	1,889,535	73,035
Community services	1,583,868	1,619,900	2,284,094	(664,194)
Capital outlay	-	-	190,337	(190,337)
Debt service:				
Principal repayment	329,137	329,137	369,397	(40,260)
Interest and fiscal charges	142,499	142,499	3,539	138,960
Interdistrict	3,368,692	3,353,692	3,804,505	(450,813)
Total Expenditures	64,310,448	64,111,247	65,445,909	(1,334,662)
Excess (Deficiency) Of Revenues Over Expenditures		64,759,827	66,084,928	(1,325,101)
	(93,079)	(293,812)	(731,689)	(437,877)
Other Financing Sources (Uses)				
Bonds issued	-	85,429	1,200,000	1,114,571
Bond premium	-	-	10,841	10,841
Loan proceeds	-	448,754	380,718	(68,036)
Bond discount	-	-	(22,805)	(22,805)
Transfers out	(648,580)	(648,580)	(639,019)	9,561
Total Other Financing Sources (Uses)	(648,580)	(114,397)	929,735	1,044,132
Net Change in Fund Balances	(741,659)	(408,209)	198,046	606,255
Fund Balances, July 1	5,783,978	5,783,978	5,783,978	-
Fund Balances, June 30	\$ 5,042,319	\$5,375,769	\$5,982,024	\$ 606,255

See accompanying notes to basic financial statements.

ROCKFORD PUBLIC SCHOOLS
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2006

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
Assets		
Cash equivalents, deposits and investments (Note B)	<u>\$ 366,462</u>	<u>\$ 534,063</u>
Liabilities		
Due to student groups	<u>-</u>	<u>\$ 534,063</u>
Net Assets		
Held in trust for: Individuals and organizations	<u>\$ 366,462</u>	

See accompanying notes to basic financial statements.

ROCKFORD PUBLIC SCHOOLS
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the year ended June 30, 2006

	Private Purpose Trust Fund
Additions	
Donations	\$ 50,258
Interest earnings	7,001
	<hr/>
Total Additions	57,259
	<hr/>
Deductions	
Endowment activities - scholarships	64,040
	<hr/>
Change In Net Assets	(6,781)
	<hr/>
Net Assets, Beginning of Year	373,243
	<hr/>
Net Assets, End of Year	\$ 366,462
	<hr/> <hr/>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

ROCKFORD PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Note A – Summary of Significant Accounting Policies

Rockford Public Schools was organized under the School Code of the State of Michigan and services a population of approximately 7,803 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Rockford Public Schools (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the District’s accounting policies are described below.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. District-Wide and Fund Financial Statements

District-Wide Financial Statements - The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

ROCKFORD PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund is the District's only major fund. Non-major funds are aggregated and presented in a single column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

ROCKFORD PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

General Fund—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service and Athletics Funds.

Debt Service Funds—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

Capital Projects Funds—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of Section 1351a of the State of Michigan's School Code.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Fiduciary Fund net assets and results of operations are not included in the district-wide financial statements. Fiduciary funds are reported using the economic resources measurement focus. The District presently maintains a scholarship fund for the benefit of students.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the district-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a

ROCKFORD PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

deficit. Rockford Public Schools has also adopted budgets for its Special Revenue Funds. A school district's Budget Appropriations Act (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at the end of the fiscal year.

Rockford Public Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent and Associate Superintendent for Business to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them. These amendments were not significant to the total budgets.
- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventory

Inventories are valued at cost (first-in, first-out). Inventories of the General Fund consist of teaching and custodial supplies. Inventories of the Food Service Fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

ROCKFORD PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

8. Capital Assets

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, buildings and additions, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10-20 years
Buildings and additions	40-50 years
Vehicles	5-10 years
Furniture and equipment	3-10 years

9. Long-Term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

10. Early Retirement Incentive/Accumulated Sick Leave

Early retirement incentive and accumulated sick leave at June 30, 2006 have been computed and recorded in the basic financial statements of the District. Eligible District employees who select early retirement are entitled to a termination leave payment based on their age and years of service. Employees who leave the District are also entitled to reimbursement for a portion of their unused sick days. At June 30, 2006, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for early retirement incentive and accumulated sick leave amounted to \$253,000 and \$296,085, respectively.

11. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

ROCKFORD PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

12. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

13. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents, Deposits and Investments

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- United States government or Federal agency obligation repurchase agreements.
- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school district in Michigan.
- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district in Michigan.

Balances at June 30, 2006 related to cash equivalents, deposits and investments are detailed in the Basic Financial Statements as follows:

Statement of Net Assets:
Governmental activities

\$ 7,611,128

ROCKFORD PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Fiduciary Funds:

Trust and Agency Funds

900,525

\$ 8,511,653

Cash Equivalents

Depositories actively used by the District during the year are detailed as follows:

1. Independent Bank
2. Fifth Third Bank
3. Chase J.P. Morgan Bank, N.A.

Cash equivalents consist of bank public funds checking and savings accounts.

June 30, 2006 balances are detailed as follows:

Cash equivalents

\$ 584,769

Custodial credit risk

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents and deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits was \$584,769 and the bank balance was \$621,849. Of the bank balance, \$100,000 was covered by federal depository insurance and \$521,849 was uninsured.

Investments

As of June 30, 2006 the District had the following investments:

Investment Pool Accounts:

Michigan Liquid Asset Fund Plus

Fair Value

\$ 7,926,884

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimizes custodial credit risk by limiting investments to the types of securities allowed by law.

Credit Risk

The District's investments in the Michigan Liquid Asset Fund investment pool were unrated.

Interest Rate Risk

The District minimizes interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

ROCKFORD PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Concentration of Credit Risk

The District's investment policy places no restrictions on the amount or percentage that may be invested in any one type of security.

Foreign Currency Risk

The District is not authorized to invest in investments which have this type of risk.

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts. The amount of 2005 ad valorem State Education Taxes generated within the Rockford Public School District, and paid to the State of Michigan, totaled \$8,093,721.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February, 2005 and September, 2005. The 2005-06 "Foundation Allowance" for Rockford Public Schools was \$6,875 for 7,798 "Full Time Equivalent" students, generating \$49,310,322 in state aid payments to the District of which \$8,939,151 was paid to the District in July and August, 2006 and included in "Due From Other Governmental Units" of the General Fund and Food Service Special Revenue Fund of the District.

Property taxes for the District are levied July 1 and December 1 (the tax lien dates) under a split-levy system by the City of Rockford and the Townships of Algoma, Cannon, Courtland, Grattan, Oakfield and the Charter Township of Plainfield, and are due 75 days after levy dates. The taxes are then collected by each governmental unit and remitted to the District. The County of Kent, through its Delinquent Tax Revolving Fund, advances all delinquent real property taxes at March 1 to the District each year prior to June 30. Delinquent personal property taxes receivable are detailed as follows:

Tax Year	General	Debt Service	Total
2005	\$ 72,040	\$ 33,165	\$ 105,205
2004	86,830	38,915	125,745
2003	98,478	46,648	145,126
	<u>\$ 257,348</u>	<u>\$ 118,728</u>	<u>\$ 376,076</u>

Taxes uncollected after three years from the date of levy, unless material in amount, are written off the books of the District.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

ROCKFORD PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

As Rockford Public Schools' electors had previously (September 24, 1991) approved an operating millage extension, the 18 mill non-homestead property tax was levied in the District for 2005.

The District levied a .9949 recreation millage and 8.50 mills for debt service purposes in 2005, applied on all taxable property in the District.

Taxable property in the District is assessed initially at 50% of true cash value (at December 31) by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A, taxable property is now divided into two categories: homestead and non-homestead.

Homestead property is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage", nor any additional voted millage for the retirement of debt.

Non-homestead property is considered to be all property not qualifying for a homestead exemption, which includes all commercial and industrial property. Non-homestead property is subject to all District levies.

Note D – Interfund Receivables/Payables and Transfers

Amounts due from (to) other funds representing interfund receivables and payables for year end expenditure allocations not reimbursed at June 30, 2006 are detailed as follows:

	<u>Due From</u>	<u>Due To</u>
Major Fund		
General Fund:		
Food Service Fund	\$ 288,492	\$ 16,391
Athletics Fund	32,250	47,733
	<hr/>	<hr/>
Total Major Fund	320,742	64,124
	<hr/>	<hr/>
Nonmajor Funds		
Food Service Fund:		
General Fund	16,391	288,492
Athletics Fund:		
General Fund	47,733	32,250
	<hr/>	<hr/>
Total Nonmajor Funds	64,124	320,742
	<hr/>	<hr/>
Total All Funds	<u><u>\$ 384,866</u></u>	<u><u>\$ 384,866</u></u>

ROCKFORD PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Transfers between funds during the year ended June 30, 2006 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Fund		
General Fund:		
Athletics Fund	\$ —	\$ 639,019
Nonmajor Fund		
Athletics Fund:		
General Fund	639,019	—
Total All Funds	<u>\$ 639,019</u>	<u>\$ 639,019</u>

The General Fund transfer to the Athletics Fund was made to pay the General Fund's share of support for the athletic program for the fiscal year.

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balances July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2006</u>
Capital assets not depreciated:				
Land	\$ 1,392,503	\$ 570,337	\$ —	\$ 1,962,840
Capital assets being depreciated:				
Land improvements	4,443,706	—	—	4,443,706
Buildings and additions	85,789,123	—	—	85,789,123
Furniture and equipment	10,701,380	193,310	—	10,894,690
Vehicles	4,195,338	380,754	439,266	4,136,826
 Totals at historical cost	<u>106,522,050</u>	<u>\$1,144,401</u>	<u>\$ 439,266</u>	<u>107,227,185</u>
 Less accumulated depreciation for:				
Land improvements	2,612,136	\$ 209,268	\$ —	2,821,404
Buildings and additions	25,255,437	2,025,127	—	27,280,564
Furniture and equipment	6,468,786	473,044	—	6,941,830
Vehicles	2,844,397	275,661	439,266	2,680,792
 Total accumulated depreciation	<u>37,180,756</u>	<u>\$2,983,100</u>	<u>\$ 439,266</u>	<u>39,724,590</u>
 Net Capital Assets	<u>\$ 69,341,294</u>			<u>\$ 67,502,595</u>

ROCKFORD PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Depreciation expense was charged to District activities as follows:

Governmental activities:	
Instruction	\$ 1,968,567
Supporting services	595,521
Community services	3,738
Food service	92,670
Athletics	211,272
Unallocated	<u>111,332</u>
	<u>\$ 2,983,100</u>

Note F – Short-term Debt

On August 19, 2005, the District repaid the \$6,000,000 August 20, 2004 State aid anticipation loan. On August 19, 2005 the District borrowed \$2,840,000, for cash flow purposes, in anticipation of State aid (interest at 2.92%) due in full on August 18, 2006. Total interest expense on the loans was \$98,076 for the fiscal year.

Note G – Long-term Debt

Amounts available and to be provided for outstanding long-term debt at June 30, 2006 are summarized as follows:

	Bond Issues	State School Bond Loan	Capital Leases/ Installment Purchase Agreements	Early Retirement Incentive/ Accumulated Sick Leave	Total
Amount Available For Retirement Of Long-Term Debt					
Debt Service Funds	\$ 3,059,120	\$ —	\$ —	\$ —	\$ 3,059,120
Amounts To Be Provided For Retirement Of Long-Term Debt					
State of Michigan	531,430	—	—	—	531,430
General Fund	1,200,000	—	406,590	549,085	2,155,675
Debt Service Funds	<u>97,807,773</u>	<u>1,820,715</u>	<u>—</u>	<u>—</u>	<u>99,628,488</u>
Total Amounts Available and To Be Provided	<u>\$102,598,323</u>	<u>\$1,820,715</u>	<u>\$ 406,590</u>	<u>\$ 549,085</u>	<u>\$105,374,713</u>

ROCKFORD PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Changes in long-term debt for the year ended June 30, 2006 are summarized as follows:

	Debt Outstanding July 1, 2005	Debt Added	Debt Retired	Debt Outstanding June 30, 2006
General obligation bonds:				
February 22, 1990	\$ 1,433,203	\$ —	\$ 366,310	\$ 1,066,893
April 2, 1996	2,375,000	—	2,375,000	—
August 1, 1997	8,000,000	—	1,850,000	6,150,000
February 15, 2002	12,290,000	—	5,000	12,285,000
March 13, 2002	31,925,000	—	1,175,000	30,750,000
March 3, 2005	34,875,000	—	—	34,875,000
March 7, 2006	—	15,740,000	—	15,740,000
Durant non-plaintiff bonds:				
November 13, 1998	574,995	—	43,565	531,430
Energy conservation improvement bonds:				
May 22, 2006	—	1,200,000	—	1,200,000
State school bond loan	16,172,096	449,682	14,801,063	1,820,715
Installment purchase agreements	346,104	380,718	346,104	380,718
Capital leases	62,101	—	36,229	25,872
Early retirement incentive	371,000	4,000	122,000	253,000
Accumulated sick leave	326,602	72,368	102,885	296,085
	<u>\$ 108,751,101</u>	<u>\$17,846,768</u>	<u>\$ 21,223,156</u>	<u>\$ 105,374,713</u>

Long-term bonds, installment purchase agreements and capital leases outstanding at June 30, 2006 are comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
General Obligation Bonds				
\$12,222,462 1990 Building and Site Refunding:				
Annual maturities of \$293M to \$490M	May 1, 2009	8.10	\$ 1,066,893	\$293,664
\$66,500M 1997 Building and Site:				
Annual maturities of \$1,950M to \$2,775M	May 1, 2009	6.00 - 6.50	6,150,000	1,950,000
\$12,300M 2002 General Obligation Refunding:				
Annual maturities of \$10M to \$2,630M	May 1, 2014	3.25 - 5.00	12,285,000	10,000
\$34,880M 2002 General Obligation Refunding:				
Annual maturities of \$330M to \$3,055M	May 1, 2019	3.55 - 5.00	30,750,000	1,320,000
\$34,875M 2005 General Obligation Refunding:				
Annual maturities of \$25M to \$2,780M	May 1, 2027	2.75 - 5.00	34,875,000	25,000
\$2,305M 2006 General Obligation Refunding Series A:				
Annual maturities of \$145M to \$205M	May 1, 2020	3.75 - 5.00	2,305,000	205,000
\$13,435M 2006 General Obligation Refunding Series B:				
Annual maturities of \$2,680M to \$4,010M	May 1, 2010	4.00 - 4.763	13,435,000	2,680,000

ROCKFORD PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
Durant Non-plaintiff Bonds				
\$900,023 1998 Durant School Improvement:				
Annual maturities of \$45,629 to \$215,019	May 15, 2013	4.761353	\$ 531,430	\$ 45,629
Energy Conservation Improvement Bonds				
\$1,200M 2006 Improvement:				
Annual maturities of \$60M to \$105M	May 1, 2021	4.25 – 4.45	1,200,000	60,000
Installment Purchase Agreements				
\$380,718 2006 School Buses:				
Annual maturities of \$120M to \$134M	June 22, 2009	2.045	380,718	120,057
Capital Leases				
\$64,680 2003 Equipment:				
Monthly installments of \$1,078	July 15, 2008	N/A	25,872	12,936
			<u>\$103,004,913</u>	<u>\$ 6,722,286</u>

The District is required to obtain loans from the Michigan School Bond Loan fund for the payment of the annual maturities of its general obligation bonds. There is no fixed maturity schedule for the repayment of these loans. Instead, the principal and interest are payable when taxes levied for debt service are no longer needed to retire bonded debt. During the year, \$449,682 of accrued interest was added to the District's liability to the Fund and the District repaid \$14,801,063 of its prior liability to the Fund through the March, 2006 bond refunding process. At June 30, 2006, the District owed the Fund a total of \$1,820,715 which was repaid in full in July, 2006 using surplus funds of the District's Debt Service Funds.

The annual requirements to pay principal and interest on long-term bonds, installment purchase agreements and capital leases outstanding are as follows:

Year Ended June 30	Principal	Interest	Total
2007	\$ 6,722,286	\$ 5,778,161	\$ 12,500,447
2008	7,692,637	5,453,151	13,145,788
2009	6,602,090	5,949,482	12,551,572
2010	9,275,019	3,962,196	13,237,215
2011	5,279,971	3,467,588	8,747,559
2012	5,432,585	3,207,058	8,639,643
2013	5,565,325	2,938,840	8,504,165
2014	5,620,000	2,689,512	8,309,512
2015	5,780,000	2,437,826	8,217,826
2016	5,865,000	2,162,035	8,027,035

ROCKFORD PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Year Ended June 30	Principal	Interest	Total
2017	\$ 5,925,000	\$ 1,879,523	\$ 7,804,523
2018	5,950,000	1,624,466	7,574,466
2019	5,980,000	1,360,360	7,340,360
2020	2,920,000	1,063,309	3,983,309
2021	2,760,000	919,172	3,679,172
2022	2,640,000	781,750	3,421,750
2023	2,630,000	649,750	3,279,750
2024	2,615,000	518,250	3,133,250
2025	2,600,000	387,500	2,987,500
2026	2,585,000	257,500	2,842,500
2027	2,565,000	128,250	2,693,250
	<u>\$ 103,004,913</u>	<u>\$47,615,679</u>	<u>\$150,620,592</u>

Defeasance of Debt – On February 8, 2002 and March 3, 2005 the District defeased 1997 general obligation serial bonds by placing the proceeds of newly issued bonds in an irrevocable trust to provide for all future debt service payments on the old bonds, with final payment scheduled on May 1, 2007. Accordingly the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2006, \$48,325,000 of 1997 bonds outstanding is considered defeased.

On March 7, 2006, the District issued \$15,740,000 in general obligation bonds with an average interest rate of 4.13740% to advance refund \$2,225,000 of outstanding 1996 general obligation bonds and \$14,801,063 of Michigan School Bond Loan Revolving Fund (MSBLF) debt with an effective interest rate of 5.14127%, resulting in a net present value savings of \$409,662. The net proceeds (\$17,091,947 after the net premium of \$333,806, District contribution of \$1,200,000 and payment of \$181,859 in underwriting fees, insurance and other issuance costs) were: deposited with an escrow agent and used to purchase United States government securities (\$2,290,884); and forwarded to the MSBLF (\$14,801,063) for immediate repayment of outstanding debt. Under the terms of the agreement these securities, together with the interest earned to maturity, will be sufficient to pay principal and interest as it becomes due, which was paid in full on March 7, 2006 and May 1, 2006. This defeasance procedure allows the District to remove the related assets and liabilities from its financial statements, which it has done.

Note H – Retirement Plan

Substantially all District employees participate in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan. The District's payroll for employees covered by MPERS for the year ended June 30, 2006 was \$37,257,434. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of

ROCKFORD PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

School districts in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPSERS plan. The contribution rate was 14.87% for the fiscal year ending September 30, 2005 and 16.34% for the fiscal year beginning October 1, 2005. The District's contributions to the plan for the fiscal years ended June 30, 2006, 2005 and 2004 were \$5,984,052, \$5,170,654 and \$4,593,008, respectively.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPSERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPSERS does not make separate measurements of assets and actuarial accrued liability for individual schools. The actuarial accrued liability at September 30, 2004 (the latest reporting date available expressed as \$ in millions) for the MPSERS as a whole, determined through an actuarial valuation performed as of that date, was \$46,317. The MPSERS' net assets available for benefits on that date were \$38,784 leaving an unfunded pension benefit obligation of \$7,533. Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2005 Annual Report of the MPSERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

The total actuarial accrued liability (expressed as \$ in millions) increased by \$1,548 from September 30, 2003 to September 30, 2004. Not included in the pension benefit obligation above is any future obligation attributable to health, dental and vision insurance benefits which are funded on a cash disbursement basis. With the passage of Act 279 of 1996, making permanent the cash basis financing of health, dental and vision benefits, actuarially calculated liabilities for these benefits are no longer disclosed on the balance sheets.

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan (MIP). Effective January 1, 1990, all new employees are automatically enrolled in MIP. Participants in MIP, who receive benefits in addition to those available under the Basic Plan, contribute a percentage of salary. The graduated contribution rate is based on total wages and is calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000. MIP members may retire at any age with 30 years of service, or at age 60 with 5 years of service, with benefits based on a final average compensation period of 5 years for members of the Basic Retirement Plan and 3 years for members of the MIP Retirement Plan.

Post-employment benefits for health, dental and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS as discussed above.

ROCKFORD PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Note I – Risk Management and Benefits

The District is a member of the West Michigan Risk Management Trust, a self-insurance program with districts pooling together to insure property, liability and auto exposure. Premiums from members of the Trust are determined through standard underwriting procedures. The members of the Trust have contributed amounts sufficient to fund individual and aggregate losses up to \$175,000 and \$865,000, respectively, on an annual basis. Excess insurance has been purchased to cover claims exceeding those amounts. A \$1,000 per occurrence deductible for property losses is maintained. The District paid \$256,228 in premiums to the Trust for the year ended June 30, 2006.

The District is also a member of the West Michigan Workers' Compensation Fund, a self-insurance program with 19 districts pooling together to insure workers' compensation and employers' liability exposures. The Fund pays the first \$300,000 of any workers' compensation or employers' liability loss out of an \$800,000 loss fund collected from members. Excess insurance has been purchased to cover claims exceeding those amounts. As of June 30, 2006, there were no material pending claims against the District. The District paid \$289,092 in premiums to the Fund for the year ended June 30, 2006.

Health, life, and other employee insurance is provided by private insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note J – Stewardship, Compliance and Accountability

The following District funds had actual expenditures exceed and other financing uses final budgeted amounts for the year ended June 30, 2006, as follows:

	Budget	Actual	Unfavorable Variance
General Fund	\$ 64,759,827	\$ 66,107,733	\$ 1,347,906
Special Revenue Funds			
Food Service Fund	1,934,169	1,989,924	55,755
Athletics Fund	1,011,800	1,061,041	49,241

SUPPLEMENTAL INFORMATION

NONMAJOR FUNDS

ROCKFORD PUBLIC SCHOOLS
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2006

	Special Revenue		1990	1996
	Food Service	Athletics		
Assets				
Cash equivalents, deposits and investments	\$ 356,867	\$ 4,413	\$ 129,670	\$ 108,803
Taxes receivable	-	-	14,729	3,928
Accounts receivable	9,989	-	-	-
Due from other funds	16,391	47,733	-	-
Inventory	21,548	-	-	-
Total Assets	<u>\$ 404,795</u>	<u>\$ 52,146</u>	<u>\$ 144,399</u>	<u>\$ 112,731</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 774	\$ 831	\$ -	\$ -
Due to other funds	288,492	32,250	-	-
Due to other governmental units	-	2,484	-	-
Salaries payable	1,454	16,581	-	-
Deferred revenue	-	-	14,729	3,928
Total Liabilities	<u>290,720</u>	<u>52,146</u>	<u>14,729</u>	<u>3,928</u>
Fund Balances				
Reserved for debt service	-	-	129,670	108,803
Unreserved:				
Undesignated	114,075	-	-	-
Total Fund Balances	<u>114,075</u>	<u>-</u>	<u>129,670</u>	<u>108,803</u>
Total Liabilities and Fund Balances	<u>\$ 404,795</u>	<u>\$ 52,146</u>	<u>\$ 144,399</u>	<u>\$ 112,731</u>

Debt Service					
1997	2002 (A)	2002 (B)	2005	2006	Total
\$ 654,777	\$ 407,477	\$ 644,784	\$ 1,108,325	\$ 5,284	\$ 3,420,400
48,713	29,099	8,642	13,617	-	118,728
-	-	-	-	-	9,989
-	-	-	-	-	64,124
-	-	-	-	-	21,548
<u>\$ 703,490</u>	<u>\$ 436,576</u>	<u>\$ 653,426</u>	<u>\$ 1,121,942</u>	<u>\$ 5,284</u>	<u>\$ 3,634,789</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,605
-	-	-	-	-	320,742
-	-	-	-	-	2,484
-	-	-	-	-	18,035
48,713	29,099	8,642	13,617	-	118,728
<u>48,713</u>	<u>29,099</u>	<u>8,642</u>	<u>13,617</u>	<u>-</u>	<u>461,594</u>
654,777	407,477	644,784	1,108,325	5,284	3,059,120
-	-	-	-	-	114,075
<u>654,777</u>	<u>407,477</u>	<u>644,784</u>	<u>1,108,325</u>	<u>5,284</u>	<u>3,173,195</u>
<u>\$ 703,490</u>	<u>\$ 436,576</u>	<u>\$ 653,426</u>	<u>\$ 1,121,942</u>	<u>\$ 5,284</u>	<u>\$ 3,634,789</u>

ROCKFORD PUBLIC SCHOOLS
Combining Schedule of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2006

	Special Revenue			
	Food Service	Athletics	1990	1996
Revenues				
Local sources:				
Property taxes	\$ -	\$ -	\$ 1,340,154	\$ 273,619
Interest earnings	7,002	349	24,016	4,087
Sales and admissions	1,599,866	421,673	-	-
Other local sources	-	-	-	-
Total local sources	1,606,868	422,022	1,364,170	277,706
State sources	91,502	-	-	-
Federal sources	332,905	-	-	-
Total Revenues	2,031,275	422,022	1,364,170	277,706
Expenditures				
Current:				
Food service	1,989,924	-	-	-
Athletics	-	1,061,041	-	-
Debt service:				
Principal repayment	-	-	366,310	150,000
Interest and fiscal charges	-	-	960,321	65,949
Bond issuance costs	-	-	-	13,066
Underwriter's discount	-	-	-	13,664
Total Expenditures	1,989,924	1,061,041	1,326,631	242,679
Excess (Deficiency) of Revenues Over Expenditures	41,351	(639,019)	37,539	35,027
Other Financing Sources (Uses)				
Refunding bond proceeds	-	-	-	2,269,484
Bond premium	-	-	-	48,131
Transfers in	-	639,019	-	-
Payments to escrow agent	-	-	-	(2,290,885)
Total Other Financing Sources (Uses)	-	639,019	-	26,730
Net Change in Fund Balances	41,351	-	37,539	61,757
Fund Balances, July 1	72,724	-	92,131	47,046
Fund Balances, June 30	\$ 114,075	\$ -	\$ 129,670	\$ 108,803

Debt Service						
1997	2002 (A)	2002 (B)	2005	2006	Durant	Total
\$ 2,574,848	\$ 2,652,756	\$ 655,912	\$ 4,121,520	\$ -	\$ -	\$ 11,618,809
52,243	40,145	25,172	46,906	-	-	199,920
-	-	-	-	-	-	2,021,539
-	-	-	-	5,284	-	5,284
2,627,091	2,692,901	681,084	4,168,426	5,284	-	13,845,552
-	-	-	-	-	63,203	154,705
-	-	-	-	-	-	332,905
2,627,091	2,692,901	681,084	4,168,426	5,284	63,203	14,333,162
-	-	-	-	-	-	1,989,924
-	-	-	-	-	-	1,061,041
1,850,000	1,175,000	5,000	14,801,063	-	43,565	18,390,938
502,335	1,461,811	588,558	1,945,519	-	19,638	5,544,131
-	-	-	94,027	-	-	107,093
-	-	-	61,100	-	-	74,764
2,352,335	2,636,811	593,558	16,901,709	-	63,203	27,167,891
274,756	56,090	87,526	(12,733,283)	5,284	-	(12,834,729)
-	-	-	13,470,516	-	-	15,740,000
-	-	-	285,675	-	-	333,806
-	-	-	-	-	-	639,019
-	-	-	-	-	-	(2,290,885)
-	-	-	13,756,191	-	-	14,421,940
274,756	56,090	87,526	1,022,908	5,284	-	1,587,211
380,021	351,387	557,258	85,417	-	-	1,585,984
\$ 654,777	\$ 407,477	\$ 644,784	\$ 1,108,325	\$ 5,284	\$ -	\$ 3,173,195

ROCKFORD PUBLIC SCHOOLS
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Positive (Negative)</u>
Revenues			
Local sources:			
Sales and admissions	\$ 1,603,117	\$ 1,599,866	\$ (3,251)
Interest earnings	4,500	7,002	2,502
Total local sources	1,607,617	1,606,868	(749)
State sources	90,107	91,502	1,395
Federal sources	332,991	332,905	(86)
Total Revenues	<u>2,030,715</u>	<u>2,031,275</u>	<u>560</u>
Expenditures			
Current:			
Food service	1,934,169	1,989,924	(55,755)
Net Change in Fund Balances	96,546	41,351	(55,195)
Fund Balances, July 1	<u>72,724</u>	<u>72,724</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ 169,270</u></u>	<u><u>\$ 114,075</u></u>	<u><u>\$ (55,195)</u></u>

ROCKFORD PUBLIC SCHOOLS
Athletics Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Positive (Negative)</u>
Revenues			
Local sources:			
Sales and admissions	\$ 363,237	\$ 421,673	\$ 58,436
Interest earnings	-	349	349
Total Revenues	<u>363,237</u>	<u>422,022</u>	<u>58,785</u>
Expenditures			
Current:			
Athletics	<u>1,011,800</u>	<u>1,061,041</u>	<u>(49,241)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(648,563)</u>	<u>(639,019)</u>	<u>9,544</u>
Other Financing Sources			
Transfers in	<u>648,563</u>	<u>639,019</u>	<u>(9,544)</u>
Net Change in Fund Balances	-	-	-
Fund Balances, July 1	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

ROCKFORD PUBLIC SCHOOLS
Kent County, Michigan

Auditor's Report On Compliance
For Federal Grant Programs

For the year ended June 30, 2006

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ROCKFORD PUBLIC SCHOOLS

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Hungerford, Aldrin,
Nichols & Carter, P.C.

CPAs AND CONSULTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

October 2, 2006

The Board of Education
Rockford Public Schools
Rockford, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Rockford Public Schools as of and for the year ended June 30, 2006, which collectively comprise Rockford Public School's basic financial statements and have issued our report thereon dated October 2, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rockford Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we considered to be material weaknesses.

The Board of Education
Rockford Public Schools
October 2, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rockford Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hungerford, Aldrin, Nichols & Barten, P.C.

Certified Public Accountants

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

October 2, 2006

The Board of Education
Rockford Public Schools
Rockford, Michigan

Compliance

We have audited the compliance of Rockford Public Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Rockford Public School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Rockford Public School's management. Our responsibility is to express an opinion of Rockford Public School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rockford Public School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Rockford Public School's compliance with those requirements.

In our opinion, Rockford Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Rockford Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Rockford Public School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Rockford Public Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated October 2, 2006. Our audit was performed for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hungerford, Aldrin, Nichols & Barten, P.C.

Certified Public Accountants

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

ROCKFORD PUBLIC SCHOOLS

For the year ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
U.S. Department of Education		
Passed through Michigan Department of Education (MDE):		
Title I:	84.010	
0415300405		\$342
0515300405		243,393
0515300506		4,050
0615300506		253,499
Total Title I		501,284
Title IIA:	84.367	
0405200405		724
0505200405		161,769
0605200506		162,431
Total Title IIA		324,924
Title IID:	84.318	
0442900405		1,284
0542900405		1,475
0542900506		4,814
0642900506		4,729
Total Title IID		12,302
Title V:	84.298	
0402500405		4,757
0502500506		2,005
0602500506		3,170
Total Title V		9,932
Total Passed Through MDE		848,442
Passed through Marquette-Alger School District: State Improvement Grant 050620/03001	84.323A	15,000

Accrued (Deferred) Revenue July 1, 2005	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2006
\$342	\$342		\$342	
123,794	243,403		123,784	\$10
		\$4,050	704	3,346
		252,981	146,289	106,692
124,136	243,745	257,031	271,119	110,048
724	724		724	
78,989	161,769		78,989	
		162,431	60,959	101,472
79,713	162,493	162,431	140,672	101,472
641	1,284		641	
50	1,475		50	
		4,814	4,814	
		4,729	4,729	
691	2,759	9,543	10,234	—
4,757	4,757		4,757	
	2,898	2,005	1,977	28
		3,170	1,600	1,570
4,757	7,655	5,175	8,334	1,598
209,297	416,652	434,180	430,359	213,118
5,000	15,000	—	5,000	—

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**ROCKFORD PUBLIC SCHOOLS**

For the year ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
Passed through Kent Intermediate School District (KISD): Safe and Drug Free Schools and Communities Act: 0628600506	84.186	<u>\$16,850</u>
Special Education Cluster: I.D.E.A. – Flow Through: Flow Through – 0504500405 Flow Through – 0604500506	84.027	<u>982,935</u> <u>1,026,800</u>
Total I.D.E.A. – Flow Through		<u>2,009,735</u>
I.D.E.A. –TMT: TMT – 050480	84.027A	<u>1,153</u>
I.D.E.A. – Preschool: Preschool – 0504600405 Preschool – 0604600506	84.173	<u>59,995</u> <u>56,893</u>
Total I.D.E.A. – Preschool		<u>116,888</u>
Total Special Education Cluster		<u>2,127,776</u>
Total Passed Through Intermediate School District		<u>2,144,626</u>
Total U.S. Department of Education		<u>3,008,068</u>
U.S. Department of Health and Human Services Passed Through Kent Intermediate School District (KISD) School Based Medicaid: 2004-05 2005-06	93.778	<u>1,957</u> <u>3,489</u>
Total U.S. Department of Health and Human Services		<u>5,446</u>

Accrued (Deferred) Revenue July 1, 2005	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2006
	\$16,530	\$16,850	\$16,850	
\$387,934	982,935	1,026,800	387,934 644,458	\$382,342
387,934	982,935	1,026,800	1,032,392	382,342
55	1,153		55	
21,937	59,995	56,893	21,937 36,345	20,548
21,937	59,995	56,893	58,282	20,548
409,926	1,044,083	1,083,693	1,090,729	402,890
409,926	1,060,613	1,100,543	1,107,579	402,890
624,223	1,492,265	1,534,723	1,542,938	616,008
1,957	1,957	3,489	1,957	3,489
1,957	1,957	3,489	1,957	3,489

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**ROCKFORD PUBLIC SCHOOLS**

For the year ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
U.S. Department of Agriculture Nutrition Cluster		
Passed Through Michigan Department of Education (MDE):		
National School Lunch Program:		
Lunches:		
Section 4 – Total Servings – 1950	10.555	\$102,450
Section 11 – Free and Reduced – 1960		159,988
Total Lunches		262,438
Child Care Food Program - 2004-05	10.558	5,506
Child Care Food Program - 2005-06		6,915
Total Child Care Food Program		12,421
USDA Commodities:		
Bonus Commodities	10.550	3,899
Entitlement Commodities		66,567
Total USDA Commodities		70,466
Total U.S. Department of Agriculture (Passed Through MDE)		345,325
Total Federal Financial Assistance		\$3,358,839

- Notes: 1. This schedule was prepared using accounting policies consistent with those used in preparing the Basic Financial Statements.
2. The amounts reported on the R7120, Grant Section Auditors Report, reconcile with this schedule.
3. The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with this schedule for USDA donated food commodities.

Accrued (Deferred) Revenue July 1, 2005	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2006
	\$94,237	\$102,450	\$102,450	
	132,557	159,988	159,988	
—	226,794	262,438	262,438	—
\$474	5,506		474	
		6,915	6,387	\$528
474	5,506	6,915	6,861	528
	5,287	3,899	3,899	
	58,381	66,567	66,567	
—	63,668	70,466	70,466	—
474	295,968	339,819	339,765	528
\$626,654	\$1,790,190	\$1,878,031	\$1,884,660	\$620,025

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

ROCKFORD PUBLIC SCHOOLS

For the year ended June 30, 2006

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors’ report issued:

Unqualified

Internal control over financial reporting:

2. Material weakness(es) identified? _____ Yes X No

3. Reportable condition(s) identified that are not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

4. Material weakness(es) identified: _____ Yes X No

5. Reportable condition(s) identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditor’s report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

_____ Yes X No

Identification of minor programs audited:

I.D.E.A. Cluster:

84.027 Flow Through

84.173 Preschool

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

ROCKFORD PUBLIC SCHOOLS

For the year ended June 30, 2006

Section I – Summary of Auditor’s Results (Continued)

Dollar threshold used to distinguish between type A and
type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 X Yes No

Section II – Financial Statement Findings

No matters reported.

Section III – Federal Award Findings and Questioned Costs

No matters reported.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

ROCKFORD PUBLIC SCHOOLS

For the year ended June 30, 2006

Note A – Federal Income Reconciliation

	Grant Expenditures Per Schedule of Federal Financial Assistance	Federal Revenue Per Financial Statements	Difference
Title I	\$257,031	\$257,031	
Title IIA	162,431	162,431	
Title IID	9,543	9,543	
Title V	5,175	5,175	
Child Care Food Program	6,915	6,915	
Safe and Drug Free Schools and Communities Act	16,850	16,850	
I.D.E.A.	1,083,693	1,083,693	
School Based Medicaid	3,489	3,489	
Nutrition Cluster	332,904	332,904	
	\$1,878,031	\$1,878,031	—

Hungerford, Aldrin,
Nichols & Carter, P.C.

C P A s A N D C O N S U L T A N T S

October 2, 2006

The Board of Education
Rockford Public Schools

The following comments pertain to our audit of the financial records of Rockford Public Schools as of and for the year ended June 30, 2006. The comments are made in accordance with Statement on Auditing Standards No. 61 "Communication With Audit Committees" which requires that in certain audits, certain matters are to be communicated to those who have responsibility for oversight of the financial reporting process. The communications required by this statement, if pertinent to the examination, are as follows:

1. Auditor's Responsibility Under Generally Accepted Auditing Standards.
2. Significant Accounting Policies.
3. Management Judgments and Accounting Estimates.
4. Significant Audit Adjustments.
5. Other Information in Documents Containing Audited Financial Statements.
6. Disagreements With Management.
7. Consultation With Other Accountants.
8. Major Issues Discussed With Management Prior to Retention.
9. Difficulties Encountered in Performing the Audit.
10. Uncorrected Misstatements (Passed Audit Adjustments).

The communications specified by this Statement are incidental to the audit and are not required to occur before, nor do they affect, our auditor's report on the District's financial statements.

The following are the matters to be communicated by SAS No. 61 based on our observations during the course of our audit of the financial statements and our review and evaluation of the internal control system of Rockford Public Schools:

Auditors Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Rockford Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Rockford Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Rockford Public School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Rockford Public School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Rockford Public School's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Rockford Public Schools are described in Note A to the financial statements.

Difficulties Encountered In Performing The Audit

We encountered no significant difficulties in performing the audit of the financial statements of Rockford Public Schools for the year ended June 30, 2006. We found the internal control structure and accounting system to be basically adequate and operating in the manner intended.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. During the course of our audit the following adjustments of a significant nature were made to the accounting records of the District to bring the balances to those presented in the financial statements:

General Fund

1. \$53,178 to record 2005 delinquent personal property taxes receivable and \$82,348 to write off 2002 delinquent personal property taxes uncollected at June 30, 2006.

Debt Service Funds

1. \$24,606 to record 2005 delinquent personal property taxes receivable and \$38,378 to write off 2002 delinquent personal property taxes uncollected at June 30, 2006.

Proposed Audit Adjustments

There were no material adjustments proposed during the audit not recorded by Rockford Public Schools.

Suggestions And Recommendations

We offered suggestions and recommendations regarding the day-to-day operations of the accounting system of Rockford Public Schools to the Executive Director of Business Services and District accounting personnel as the topics arose during the course of our audit fieldwork. Hopefully, these suggestions will ease the day-to-day operations of the business office and assist in more efficient monthly and year-end financial record keeping and reporting.

Other Comments

The Undesignated General Fund balance of the District decreased by \$418,327 to \$5,129,651 at June 30, 2006. This balance represents approximately 7.60 percent of the District's 2006-07 expenditure budget, down from 8.70 percent at June 30, 2005. Maintaining a fund balance of at least 10 to 20 percent of the ensuing year's expenditure budget is advisable for Rockford Public Schools. This gives the District more stable operating funds during the year, helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the District. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

Our audit this year was again completed under the requirements of Statement on Auditing Standards No. 99 "Consideration of Fraud in a Financial Statement Audit" (SAS No. 99), which requires both auditors and their clients to more directly and openly assess those areas within a school district that might be susceptible to fraudulent activity, which would normally include those areas outside the central office that handle cash, inventory, supplies, etc. This is an important audit standard that requires increased face-to-face discussions/interviews with client personnel and extensive documentation of our findings for future reference. We found that Rockford Public Schools has a very extensive network of internal controls within its accounting and record keeping system, and found those tested this year to be operating in the manner intended. Working with District business office personnel, we will be testing other control areas each year as a part of our audit, with suggestions and recommendations to follow the testing each year, to assist the District in maintaining and improving its systems.

This communication is intended solely for the information and use of the Rockford Public Schools Board of Education, administration and others within the organization. We have furnished a copy of this letter to the Michigan Department of Education as an enclosure with the audit report as required by the State of Michigan.

We appreciate the opportunity to provide financial auditing and advisory services to Rockford Public Schools and hope to continue to do so in the future. We also appreciate the dedication and cooperation of the District's administration and accounting personnel in performing their functions and in assisting us in completing ours. If there are any questions regarding the audit report, or the attached communications, we will be happy to address them.

Hungerford, Aldrin, Nichols & Benten, P.C.

Certified Public Accountants